

# **2015 -17 CONSENSUS REVENUE FORECAST AND BUDGET OUTLOOK**

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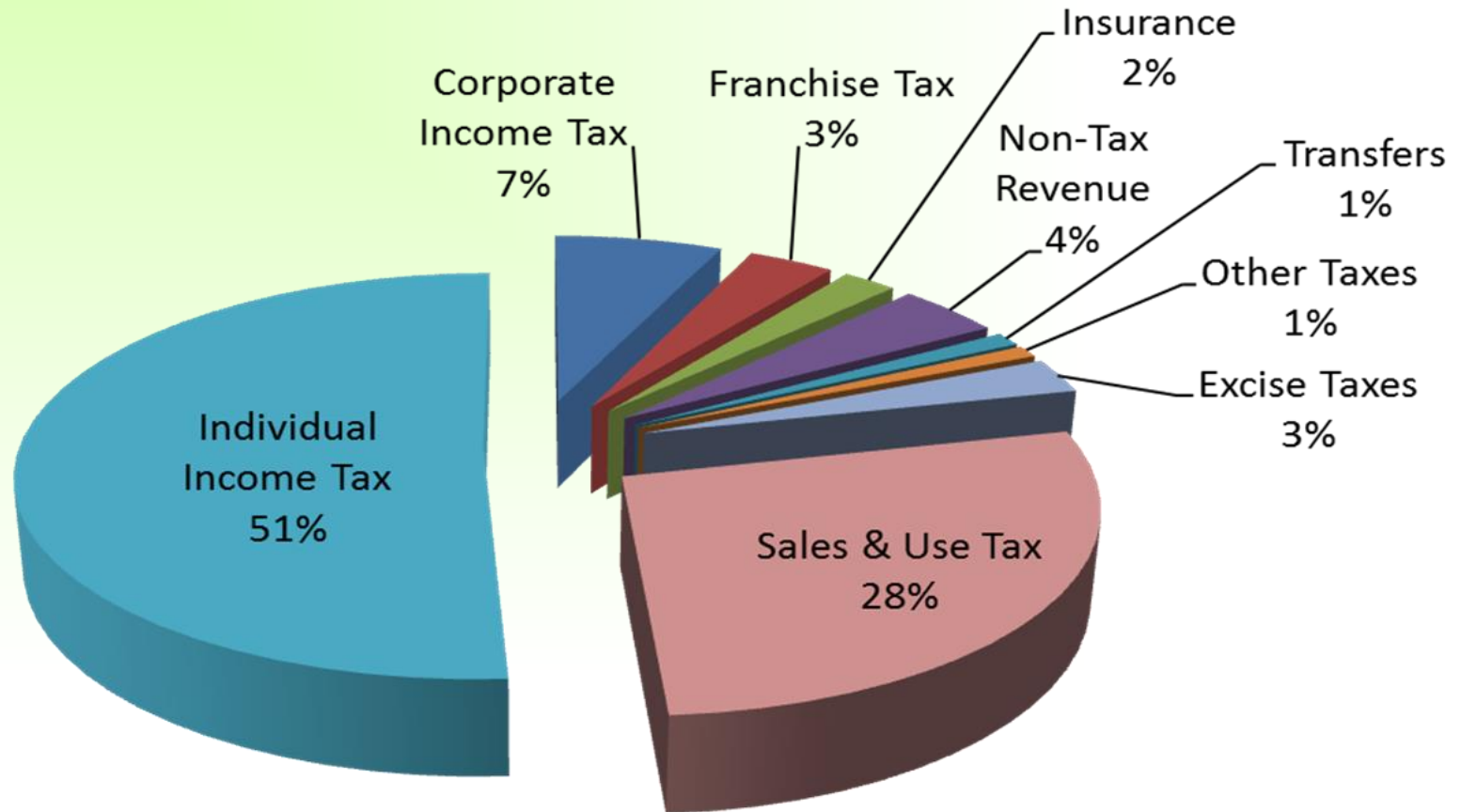


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# Presentation Outline

- Consensus Revenue Forecast
  - Current Fiscal Year
  - 2015-17 biennium Forecast
- Budget Outlook

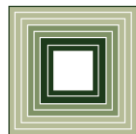
# FY 2013-14 State General Fund, \$20.15 Billion



# How Do 2014-15 Revenues Look So Far?

- Collections through January are \$215 million below the \$11.8 billion target.
- **Personal Income** tax lags behind target – down 5.8%
- **Sales** taxes ahead of target by 2.3%
- Business taxes, **Corporate Income** and **Franchise** tax, combined are 5.7% ahead of target

# FY 2015-17 Consensus Forecast



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# Consensus Revenue Process

- Statutory Guidelines do not address the budget revenue forecast
- Fiscal Research and the Office of State Budget and Management develop independent forecasts
- Prior to release of Governor's biennial budget, forecasters meet to develop a consensus forecast

# Consensus Revenue Process

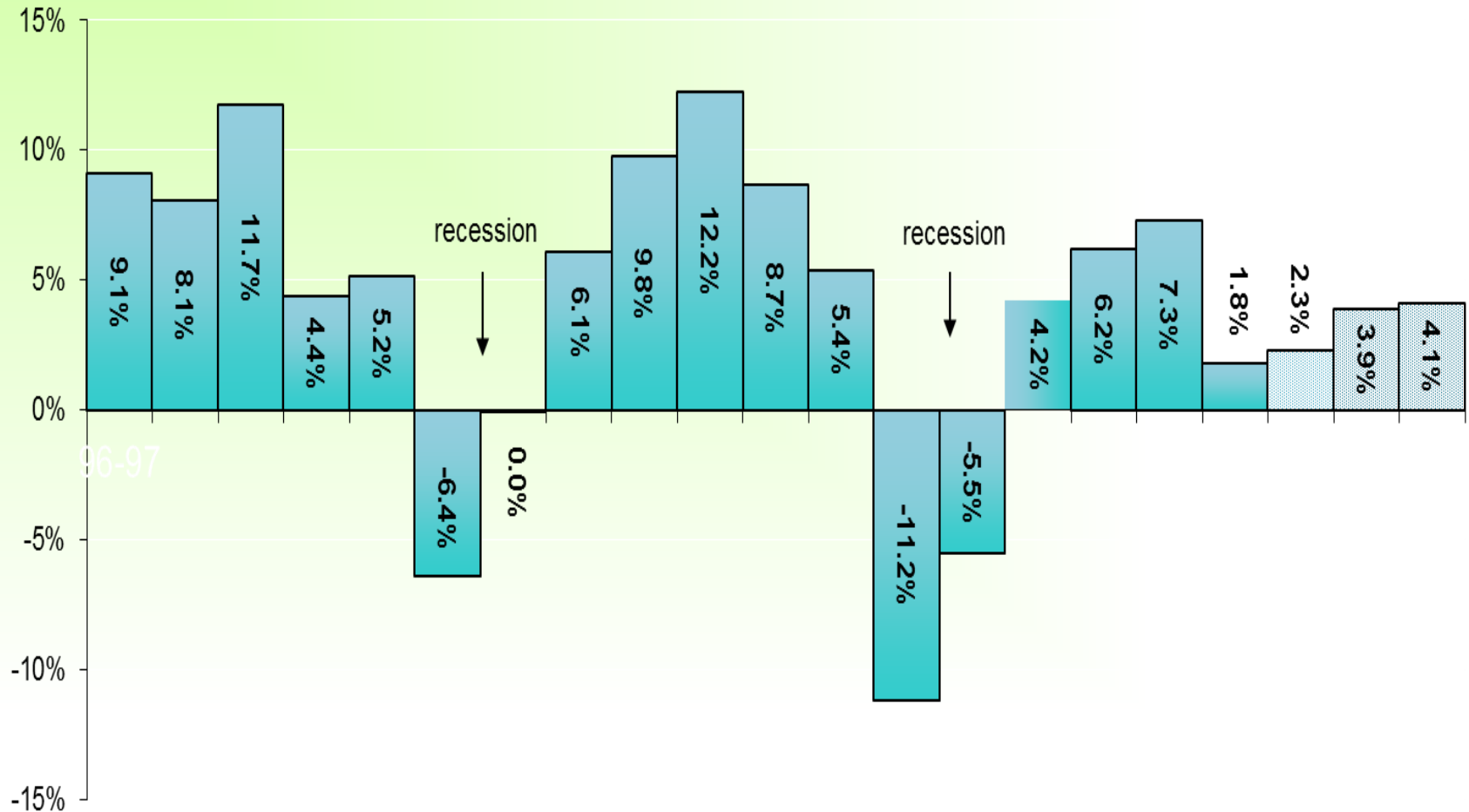
- In early May, after April receipts have been recorded, the legislature and/or the Governor can request a revised consensus forecast
- In even-numbered years there is a revision to the forecast for the second year of the biennium. The revised forecast usually takes place in early May

# Consensus Forecast

<b>Fiscal Year</b>	<b>Revenue (\$ millions)</b>	<b>Change (\$ millions)</b>	<b>Percent Change</b>
2014-15 (est.)	\$20,730.1	\$586.4	2.9%
2015-16 (est.)	\$21,409.9	\$679.8	3.3%
2016-17 (est.)	\$22,296.6	\$886.7	4.1%



## Baseline Tax Revenue Growth, FY 1996-97 to FY 2016-17



**Note:** The last three bars represent the current forecast baseline estimate.

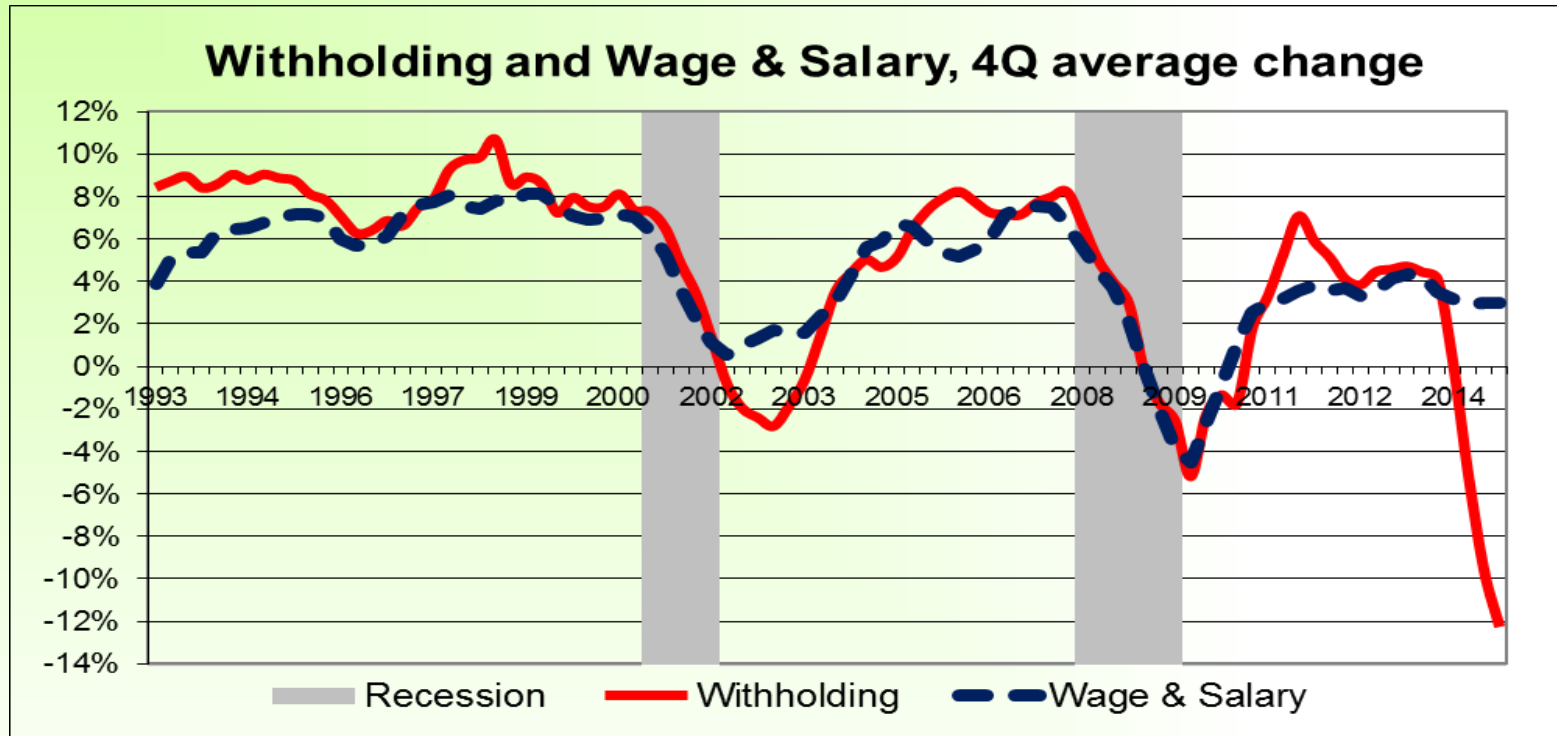
# 2015-2017 Economic Outlook

- Overall economy expected to maintain steady, yet moderate growth
- Employment gained momentum in 2014, projected to grow above 2% during biennium
  - 85,000 to 95,000 jobs added each year
- Employment picture suggest upward pressure on wages as 2016 approaches
- Improved household balance sheets and more confidence in economy help maintain solid retail sales growth
- Global Conditions require added caution

# Consensus Forecast

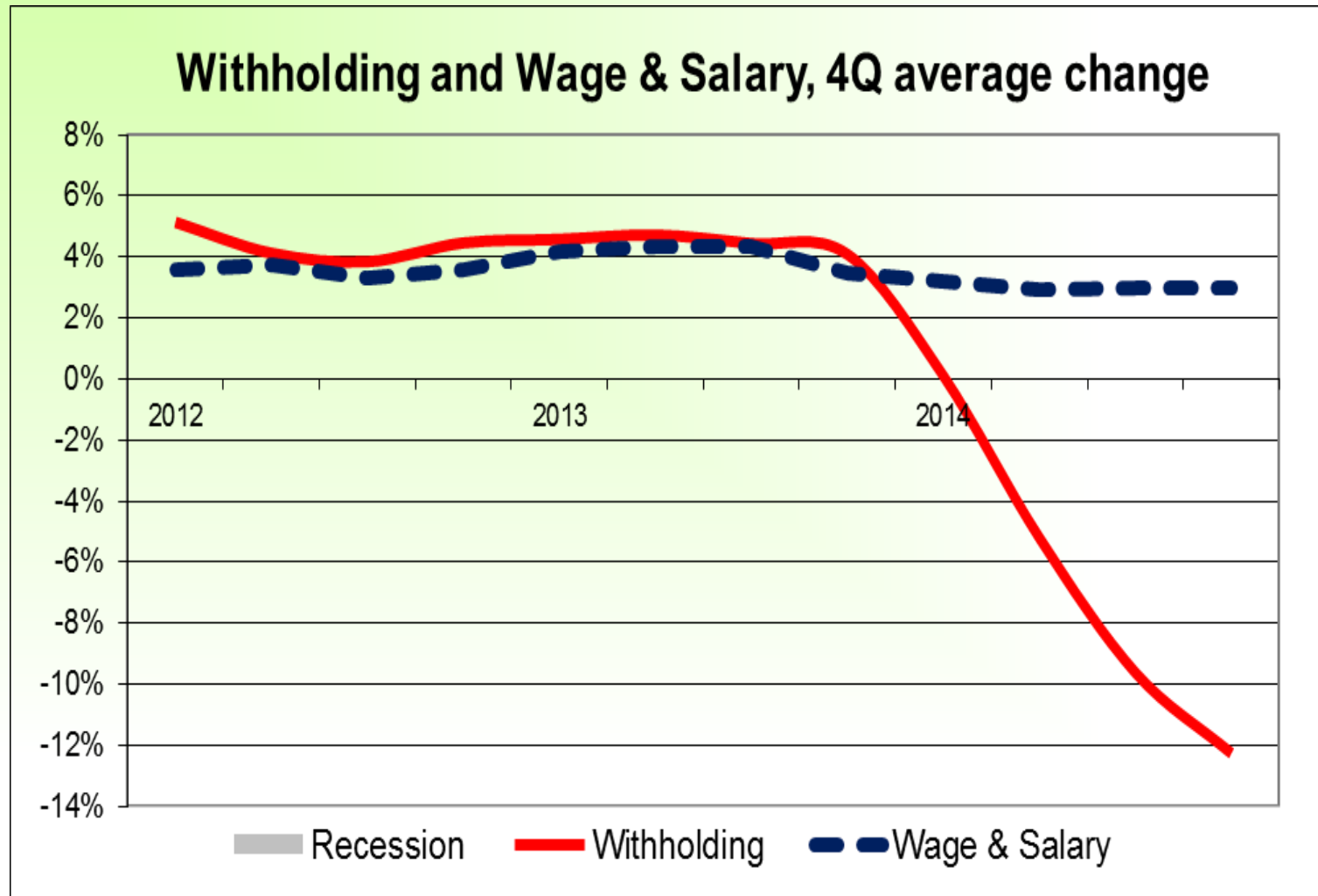
- Cautious approach needed for budgeting – added caution is warranted with over \$2 billion in tax changes enacted in 2013
- Forecast expects current year collections to be below the budgeted amount by \$271 million (1.3%)
  - Main cause is slower than expected wage growth
- **Important assumption is that April expectations for lower refunds and higher final payments are met**
  - Withholding changes
  - Broader tax base

# Consensus Forecast



Net Withholding income growth (withholdings less refunds) dropped off dramatically from last year as a result of tax law changes in S.L. 2013-316. Even without the change net withholding would have weakened as wage and salary growth has dropped below three percent.

# Consensus Forecast



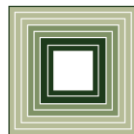
# Consensus Forecast

- **Personal Income** – employment gains begin to put upward pressure on wages
  - 3.7% and 4.5% growth in collections
- **Sales tax** growth projected to be slightly above average for the biennium
  - First time forecast has Sales growing faster than averages since onset of recession in 2008
- Overall forecast takes cautious approach in light of modest economic growth forecast and still developing tax impacts

# Conclusions

- General Fund collections for the first 7 months are \$215 million below forecast target.
- Economic forecasts expect conditions to remain steady through 2017, but growth will remain modest.
- A 1.3% shortfall of \$271 million for this fiscal year.
- Assumption on April refunds and payments key.
- Projected stable economic conditions combined with cautious forecast results in modest revenue growth.

# State Budget Overview and Outlook



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# Presentation Overview

- 2013 and 2014 Legislative Session Budget Highlights
- FY 2014-15 State Budget Overview
- 2015 Session Budget Outlook
  - Base Budget
  - Budget Pressures
  - Other Budget Items

# 2013 Session Budget Highlights

- Enacted Tax Simplification & Reduction Act (H 998)
  - FY 2013-14: a net projected reduction of \$86.6M
  - FY 2014-15: a net projected reduction of \$437.8M
- Increased Savings Reserve Account, \$232M
- Funded Repairs & Renovations, \$150M
- Addressed Medicaid Budget Needs:
  - FY 2012-13 Medicaid shortfall, \$496M
  - FY 2013-14 Medicaid additional appropriation, \$434M

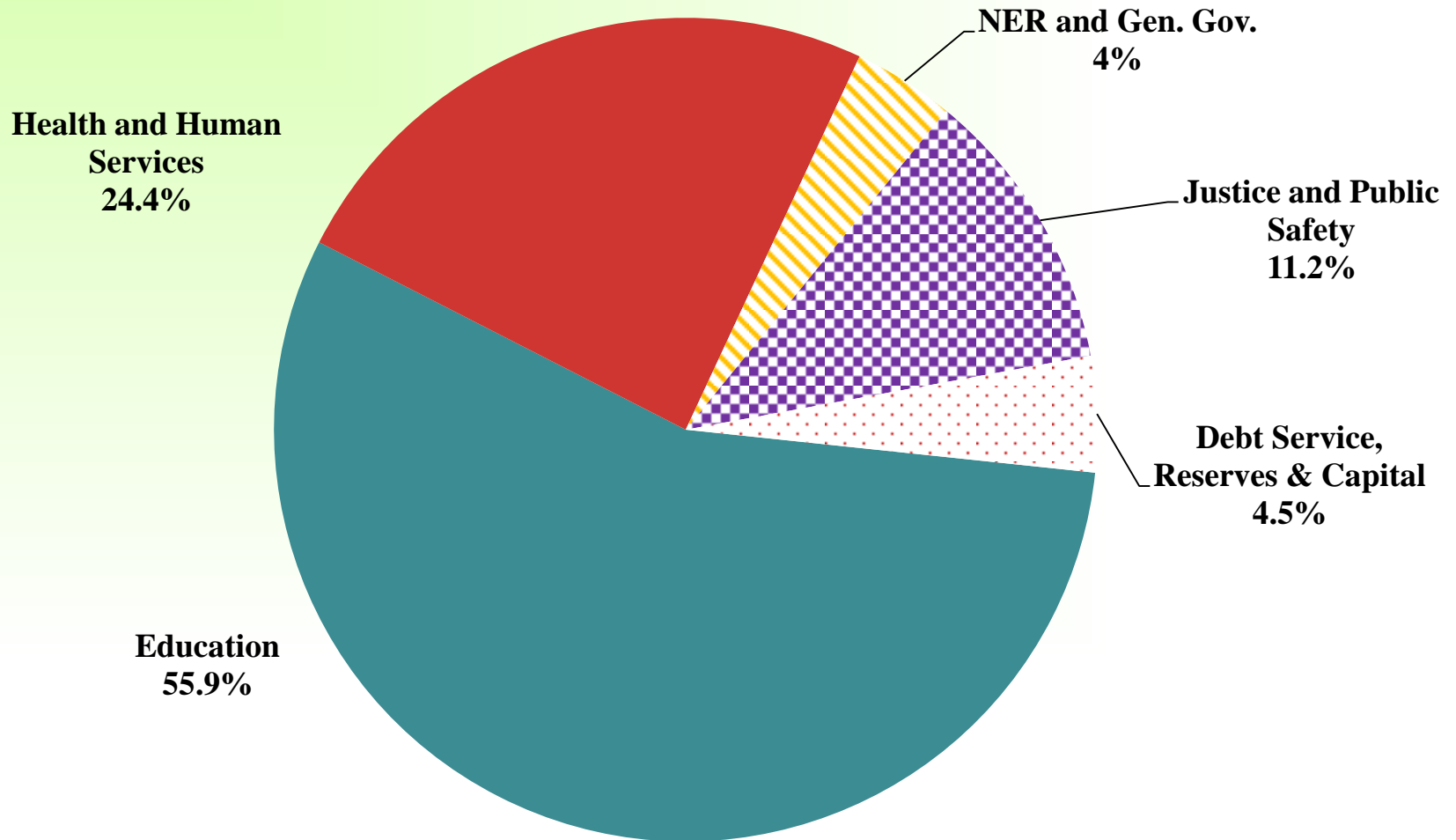
# 2014 Session Budget Highlights

- Availability Gap of \$644 M
  - Under-collection of revenue of \$453M
  - FY 2014-15 Consensus Forecast downward revision of \$191M
- Medicaid
  - \$136M projected claims backlog (carried over from FY 2013-14)
  - \$186M in reserve for FY 2014-15
- Salary and Retiree Increases of \$466M

# Where Does the Money Go?

FY 2014-15

\$21.1B



# Where Does the Money Go?

## FY 2014-15 State Appropriations by Subcommittee Area

Education	11,775,270,816	56%
Health & Human Services	5,148,161,048	24%
Justice & Public Services	2,366,128,478	11%
Natural & Economic Resources	407,326,212	2%
General Government	427,467,752	2%
Debt Service	721,591,217	3%
Statewide Reserves & Capital	236,164,622	1%
<b>Total</b>	<b>\$ 21,082,110,145</b>	

# Where Does the Money Go?

## Key Budget Drivers

Public Schools	8,104,976,608	38%	} 79%
Higher Education	3,670,294,208	17%	
Medicaid	3,688,548,123	17%	
Prisons	1,086,734,280	5%	
Debt Service	721,591,217	3%	
Mental Health	680,063,746	3%	
Judicial <sup>1</sup>	463,893,072	2%	
All Other	2,426,944,002	13%	
<b>Total</b>	<b>\$ 21,082,110,145</b>		

<sup>1</sup>Excludes Indigent Defense Services

# How does NC's Current Budget Situation Compare to Other States?

States Project Budget Shortfalls (12)

States Project Overspending (23):

- Medicaid, 14 States
- Corrections, 9 States
- K-12, 8 States
- Social Services, 4 States

Source: State Budget Update, Fall 2014 – National Conference of State Legislatures

# Top Fiscal Issues States are Facing in 2015

- Medicaid/Healthcare (22 states)
- K-12 Education Funding (21 states)
- State Tax Policy (15 states)
- Transportation (12 states)

Source: State Budget Update, Fall 2014 – National Conference of State Legislatures



# **NC's Budget Outlook**

## **2015 Legislative Session**



# **Budget Outlook**

- **Base Budget (as defined in G.S. 143C-1-1(d)(1c))**
  - Continues most funding at FY 2014-15 levels
  - Annualizes partially funded items enacted in the 2014 Appropriations Act
- **Budget Pressures**
  - Includes projected costs for State Health Plan and Medicaid, enrollment growth for public schools and universities and other funding commitments
- **Other Budget Pressures**

# FY 2015-17 Base Budget

	<u>FY 2015-16</u>	<u>FY 2016-17</u>
<b>General Fund Consensus Revenue Forecast</b>	<b>21,409,900,000</b>	<b>22,296,600,000</b>
<b>Preliminary Base Budget</b>	<b>20,869,104,439</b>	<b>20,869,150,470</b>
<b>Balance Remaining<sup>1</sup></b>	<b>\$540,795,561</b>	<b>\$1,427,449,530</b>

<sup>1</sup>Makes no assumptions about adjustments in Availability or spending.

# Budget Pressures

- FY 2014-15 Revenue Shortfall
- Medicaid Growth
- State Health Plan
- Public School Teacher Pay
- Public School Enrollment Growth
- University Enrollment
- Other Funding Commitments



# Budget Pressures

## FY 2015-17

*Preliminary Estimates*

**FY 2015-16** **FY 2016-17**

Medicaid Rebase	18,000,000	480,000,000
Public Schools Growth	70,000,000	140,000,000
University Enrollment Growth	47,500,000	78,500,000
State Health Plan	45,000,000	136,500,000
Funding Commitments:		
Teacher Pay to \$35k	41,850,000	41,850,000
Broughton Hospital	16,600,000	0
Job Maintenance and Capital Development Fund (JMAC)	9,500,000	8,500,000

# Other Budget Pressures

## FY 2015-17

- Economic Dev & Film Incentives (\$30M)
- Historic Tax Credits (\$9.6M - ???)
- Housing Loan Program (FY 2014-15, \$10M)
- Structural Budget Items (\$15M)
- Public Schools Driver's Education (\$26M)

# Other Budget Pressures (cont.)

## FY 2015-17

- State Employee Salary Increases (1% = \$134M)
- Retiree COLA (1% = \$39M)
- Other State Employee Pay Plans:
  - Teacher Step Increase (\$65M)
  - Highway Patrol, Magistrates & Clerks of Court (\$7.2M)
- Courts System Funding
- Capital
- Savings Reserve and Repair & Renovation Funds

# Questions?

Fiscal Research Division

919-733-4910

Legislative Office Building

Suites 209 and 619